

CITY OF COLESBURG
INDEPENDENT ACCOUNTANT'S AGREED UPON PROCEDURES REPORT
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Deposits and Investments	B 7
Certified Budget	C 7
Financial Reporting	D 8
Electronic Check Retention	E 8
Bank Reconciliations	F 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	G 9
Monthly Treasurer's Report	H 9
Payment of Sewer Revenue Bonds	I 9
Approval of Hours Worked	J 10
Quarterly Payroll Reports	K 10
Annual Financial Report	L 10
Fund Balance	M 10
Questionable Disbursements	N 11-12
Unclaimed Property	O 12
Separately Maintained Records	P 12
Local Option Sales Tax	Q 12
City Council Minutes	R 13
Staff	14

City of COLESBURG

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Sampson	Mayor	Jan 2016
Loras Matt	Council Member	Resigned 4/16/15
Jodi McCabe	Council Member	Jan 2016
Mitch Every	Council Member	Jan 2016
Leo Roling	Council Member	Jan 2016
Rex Meyer	Council Member	Jan 2018
Tom Forkenbrock	Council Member	Jan 2018
Julie Wessel	Clerk/Treasurer	Indefinite
Margaret Fensterman	Prior Clerk/Treasurer	7/31/15
Timothy Schloss	Attorney	Jan 2015
J. Steven McCorkindale	Attorney	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Colesburg for the period July 1, 2014 through June 30, 2015. The City of Colesburg's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed debt, including revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Colesburg, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colesburg and other parties to whom the City of Colesburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Colesburg during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Certified Public Accountants

December 15, 2015

Detailed Recommendations

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparation and distribution.
 - (5) Utilities – billing, collecting, depositing and posting.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Journal entries – preparing and journalizing.

Recommendation – All accounting functions are handled by the City Clerk without adequate compensating controls. We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of the City Clerk's bank reconciliations, annual financial reporting, budget preparation, disbursement processing, payroll processing, and employment return preparation should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The City's depository resolution is dated January 5, 1981 and states a maximum deposit limit of \$100,000 with one financial institution of which the City has exceeded that limit.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City should either comply with the depository resolution in place or update it to comply with Chapter 12C.2 of the Code of Iowa.

- (C) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works function by \$35,642 and general government function by \$39,272. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (D) Financial Reporting – Expenditures were found without properly being recorded in the general ledger.

Maggie Fensterman, City Clerk	March 2015 reimbursement for software and postage was not recorded in the general ledger	\$183.08
Maggie Fensterman, City Clerk	November 2014 reimbursement for postage was not recorded in the general ledger	\$6.00
Maggie Fensterman, City Clerk	July 2014 reimbursement for mileage to clerk school was not recorded in the general ledger	\$246.39
ACH debit on May 2015 bank statement	No supporting documentation and not recorded in general ledger	\$869.22
ACH debit on May 2015 bank statement	No supporting documentation and not recorded in general ledger	\$1,409.46
Transfer from savings to checking	April 2015 transfer found on bank statement was not recorded in general ledger	\$20,000.00
Deposit not properly recorded	April 2015 deposit was debited to an undeposited funds account rather than the bank account in the City's software	\$2,771.64

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and reported using the cash basis of accounting established by the City.

- (E) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (F) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. The November 2014 Treasurer's report was in excess of bank balances by \$311,745.55. The March 2015 Treasurer's report was in excess of bank balances by \$409,214.60. There is no oversight and no reviews made of the bank reconciliations or treasurer's report by any City officials.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled monthly and variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (G) Reconciliation of Utility Billings, Collections and Delinquent Accounts – The accounts receivable aging from the City's software does not accurately reflect past due balances. The clerk does, however, reconcile delinquent accounts and makes manual adjustments to the accounts receivable aging report generated by the software.

Recommendation – The City's software should be reviewed to ensure that it accurately reflects the past due accounts. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

- (H) Monthly Treasurer's Report – The November 2014 Treasurer's report was in excess of bank balances by \$311,745.55. There was also no evidence of two LOST CD's as reported on the November 2014 Treasurer's report in the total amount of \$71,994.67.

The March 2015 Treasurer's report was in excess of bank balances by \$409,214.90. There was also no evidence of a LOST CD as reported on the March 2015 Treasurer's report in the amount of \$50,057.55.

Treasurer's report balances for these months also did not agree to balances reported in the City's software. Because of these discrepancies, it is unclear whether fund balances are accurate.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled monthly and variances, if any, are reviewed and resolved timely. The City should take immediate action to verify correct fund balances at July 1, 2015 in order to move forward with correct recordkeeping and reconciliations of bank statements, fund balances, accounts receivable, and accounts payable.

- (I) Payment of Sewer Revenue Bonds – Principal and interest on the City's sewer revenue bonds are to be paid from net revenues that are set aside in a Sewer Revenue Bond Sinking Fund as described in the bond issue. The fund has been created and is accumulating the revenue but the debt payments are being recorded in the general fund instead of the sinking fund.

Recommendation – The City should transfer net revenues from the Enterprise, Sewer Fund to the Sewer Revenue Bond Sinking Fund for future principal and interest obligations. Payments on the bonds should be made from the Sewer Revenue Bond Sinking Fund as required.

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (J) Approval of Hours Worked – Payroll hours are not approved for the City Clerk, maintenance employee, or library employees before payroll checks are issued. There was also no documentation supporting the approved pay rates of library or pool personnel. Of the payroll items selected for testing, payroll check number 26352 dated February 2, 2015 showed 51 hours worked for the employee, however the time sheet showed 59.76 hours worked.

Recommendation – The City should put into place procedures to have proper authorizations of hours worked and review of payroll processing prior to issuing payroll checks. The city should also have the proper approval by the City Council for all employees pay rates.

- (K) Quarterly Payroll Reports – The 3rd quarter Form 941 for 2014 was not timely filed. The City Clerk contacted the IRS and subsequently filed the Form 941 immediately. Penalties were waived.

Recommendation – The City should provide oversight to ensure timely filed payroll reports and should review those reports and compare them to the payroll records for accuracy.

- (L) Annual Financial Report – The June 30, 2015 AFR fund balance does not agree to the treasurer's report. The AFR balance is \$21,601.24 under what is reported on the June 30, 2015 treasurer's report.

Recommendation – The City should take immediate action to reconcile those reports by fund to make sure all revenues and expenditures are properly reported on the annual financial report and to make sure it is a complete and accurate report.

- (M) Fund Balance – The clerk did not provide the council with a monthly comparison of actual disbursements to the budget.

Recommendation – The clerk should immediately begin providing the council with monthly comparisons of actual disbursements to the budget.

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (N) Questionable Disbursements – As defined in the Attorney General's opinion dated April 25, 1979, we believe certain disbursements may not meet the requirements of public purpose since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Rex Meyer, Council	No supporting documentation for fire training	\$ 98.63
Carol Walthart, Librarian	No supporting documentation for library supplies	408.80
Carol Walthart, Librarian	No supporting documentation for Scholastic books	54.00
Carol Walthart, Librarian	No supporting documentation for library supplies	61.95
Carol Walthart, Librarian	No supporting documentation for Scholastic books	104.00
Carol Walthart, Librarian	No supporting documentation for Scholastic books	61.00
Iowa League of Cities	Check was for \$476 but invoice was for \$346	476.00
Windstream	No supporting documentation for library phone expenditure of \$89.31	89.31
Farmers Savings Bank	No supporting documentation	165.00
Cash	No supporting documentation	50.00
Alliant Energy	No supporting documentation	2,252.02
Cory Schenke, Maintenance	Monthly health insurance reimbursements; potential violation of Affordable Care Act	301.18

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

Questionable Disbursements – continued

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. In addition, it is important to have proper supporting documentation for expenses such as invoices to support that public purpose.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. The City should establish written policies and procedures for payment of expenses that include the requirements for proper documentation. Proper bank reconciliations and review by a separate individual should be done to ensure accuracy and completeness in bookkeeping.

The \$301.18 monthly health insurance reimbursements to Cory Schenke are no longer allowed according to the Affordable Care Act. These funds are subject to payroll taxes and should be corrected immediately. No further reimbursements should be made. The City should consult with appropriate officials on how to properly handle employee benefits.

- (O) Unclaimed Property Report – The City does not report unclaimed property to the State Treasurer annually before November 1 as required by Chapter 556.11 of the Code of Iowa. The City does have aged credit balances owed to customers on utility accounts.

Recommendation – The City should report the aged credit balances as unclaimed property to the State Treasurer if the city is unable to refund these credit balances to the proper customer.

- (P) Separately Maintained Records – The Fire Department and EMS maintain separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (Q) Local Option Sales Tax (LOST) – The City's LOST ballot requires LOST receipts be used 70% for infrastructure, 10% for fire department, 10% for ambulance, and 10% for library. The City has not been tracking the use of LOST receipts.

Recommendation – The City should implement procedures to track LOST disbursements and transfers to ensure LOST receipts are being used in accordance with the ballot.

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (R) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and a list of claims, a summary of receipts, total disbursements by fund, a summary of ordinances or amendments adopted and annual individual gross salaries are published as required. Minutes for one meeting tested were not properly published within fifteen days of the meeting. None of the minutes included the total disbursements from each fund.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council minutes within fifteen days, as required. The City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund, summary of ordinances or amendments adopted and annual individual gross salaries are published as required.

City of Colesburg

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

This agreed-upon procedures engagement was performed by:

Kathy S. Mersch, CPA, Manager

Ann O. Manson, CPA
Officer in Charge
Gosling & Company, P.C.